THE NEW RATIONALE FOR UNIONISM

By Morgan O. Reynolds

> "Basically, we are impressed by what seems to have been before 1930, and what seems to exist today, a feeling of 'unease' in the presence of unions on the part of large segments of the population."
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> Douglass V. Brown and Charles A. Meyers in *Public Policy and Collective Bargaining*, 1962, edited by J. Shister, et. al.

The popular rationale for unions and their actions is that they provide employees with protection against employers. Unionists, intellectuals, and the general public believe that employers have so-called superior bargaining power, which can be used to "abuse" the wage, hour, and working conditions of employees if they have no union. Pointing to the real and imagined evils of the 19th century, unions proudly claim that they are a partial offset to the "excesses of capitalism," a corrective in an unjust society.

Professional economists, however, never offered much support for this doctrine. Generally, enterprises are forced by competition among businesses to pay competitive prices for all productive inputs, including labor services. There are too many buyers and sellers and too much mobility for an employer, no matter how large, to depress wages and working conditions for any significant period of time. To be sure, economists treasure exceptions to the predominantly independent, competitive behavior of buyers of labor, such as in professional sports and NCAA athletics, but the exaggerated belief in employer power over wages and working conditions is largely a credit to union propaganda and public gullibility (or disinterest) rather than economic analysis.

The Concept of "Collective Voice"

A new economic rationale for unionism has now appeared with a far more respectable academic pedigree than the tired story about employers exploiting helpless employees. Based on modern economic theory and econometric techniques, Professors Freeman, Medoff, and others in the Harvard/National

Bureau of Economic Research group treat unionism in an analytical, yet sympathetic way.(1) They claim that the traditional treatment of unions as monopolies is seriously misleading because it is necessary to examine the "collective voice/ institutional response" role of unionism to fully understand what unions do in modern industrial economies. Freeman and Medoff define "a trade union as the vehicle for collective voice – that is, for providing workers as a group with a means of communicating with management." (p. 71). They find unions are a form of collective action that, on balance, positively affects the economic and social system by providing workers with a "voice" at the work place and in the political arena, that unions generally increase productivity, promote economic equality, and are democratic, noncorrupt organizations. They marshal data and opinion for their view and conclude that their findings "present a reasonably valid picture of modern unionism in our country. It stands in sharp contrast to the monopoly view of trade unions and to many popular beliefs about them." (p. 93).

This new portrait, despite its sophistication, does not capture the essential features of unionism. The trouble partly lies with what they say in their analysis and even more in what they fail to say. The analysis is strangely silent about how union leaders induce managers of businesses and government agencies to listen so attentively to the voice of the "collective." The coercive *means* which unions use to pursue economic gain is a continuing source of controversy for public policy, yet Freeman and Medoff never look at what unions actually *do* and the *tactics* which they employ.

The new interpretation of unionism is unsatisfactory in a number of ways, but the problems take three general forms: 1) some hypotheses are inconsistent with the main features of U.S. unionism; 2) most of the analysis cannot be falsified by empirical experience; and 3) the main issue for public policy – the private use of intimidation, coercion, and violence – is ignored because their analysis only evaluates the economic *effects* of unionism.

The New Rationale Examined

The Freeman/Medoff approach is commonly used in other economic contexts but has a certain novelty in the case of unions. Conventional economic analysis, based on the theory of public goods and external effects, often is used to justify governmental intervention. The theory deals with cases where voluntary exchange is impeded by the high cost of negotiating and enforcing exchanges which otherwise would result in mutual gains for the parties involved.

If high costs of exchange impede trade, we have no general guarantee that resources are allocated efficiently through voluntary transactions, and inefficient equilibria are called "market failures." In other words, the actual operation of the market can differ from its ideal operation. This opens the *possibility* that government can intervene to overcome transactions costs by directly changing the allocation of resources to the mutual advantage of all concerned. Unfortunately, the theory does not go the additional steps to tell government officials where the market specifically "fails," nor why we should confidently expect government officials to be motivated to improve efficiency, nor whether actual interventions have the efficiency effects hoped for by economists. Presumably the relevant comparison should be between the actual performance of markets and the actual performance of government.

The externality argument is used to rationalize almost every conceivable coercive intervention and it also is the basis for the new analysis of unionism. Freeman and Medoff say that many aspects of industrial production are public goods or have extensive external effects which affect the well-being of every employee. Therefore, they argue that collective action is necessary because the incentive for any single person to express his attitudes or try to change conditions is small. The free-rider problem supposedly rears its head in this situation and there is too little correction of working conditions. A second reason for collective action is supposedly the "fear" of punishment among individual employees who might otherwise voice their opinion about working conditions.

There is a *possibility* that a political mechanism might correct some of these problems. It has a plausible sound to many ears. The "fear" argument has a Marxist ring to it however, since it is based on a conflict view of the enterprise rather than a medium through which employees, managers, and investors voluntarily communicate and cooperate to their mutual advantage. Truly voluntary exchanges, including those for labor services, involve mutual agreement about terms of trade. But there certainly is the theoretical possibility that a union organization could correct some exchange failures within some enterprises. Unions might be service agencies who are responsive to the collective wishes of its membership rather than predominantly monopolizing vehicles of power.

This hopeful view of unionism is a naive picture of the central features of the *national unions* which prevail in the United States. Effective service organizations are local, not national in scope. Locals are close to the membership in a plant, company, or area, making it easier to discover and act on their constituents' desires. Beyond the local level, the collective character of common working conditions virtually disappears – how much do steelworkers in Alabama care about working conditions in Pittsburgh?

Independent unions, which engage almost exclusively in local level bargaining, fit the description of the service role of unions. They generally do not use economic force or take to the streets, but these organizations long ago were derided as company unions by "legitimate" trade unionists. Section 8(a)(2) of the Wagner Act prohibits employer participation or financial support of any labor organization, spelling the end of most company unions and relieving national unions of an effective competitor. Some employees would prefer an employees' association based on the notion of mutual cooperation with an employer, rather than the union model of conflict between capital and labor.

In 1935 at the Senate hearings on the Wagner Act, there were numerous witnesses who were members of company unions. They argued that the Act would eliminate these successful working relationships. Senator Wagner effectively deflated their testimony whenever he asked them where they got the funds to come to Washington. They answered "from the company." Today more than 90 percent of union membership is in fewer than 50 industry-wide unions with over 100,000 members each. Independent (company) unions are insignificant. (2)

Collective bargaining is industry-wide and decision-making power is vested in national union officials. As William Leiserson writes:

> . . . the basic unit of union government is the national union, and not the local as is often supposed. . . . All

> sovereign powers are in these national unions. Their governments are supreme over all members, local unions, and other subordinate bodies. . . . In terms of citizenship a union member is a citizen under the government of his national or international union . . . Local unions are mere subdivisions of the national organization whose constitutions provide for their government as a state does for its counties, cities, towns, and villages . . . National laws provide for the suspension, merging, and abolition of local unions. Local officers may be removed by the national executives who may appoint administrators to manage their affairs, sometimes without the consent of the local members.(3)

This description is consistent with a monopoly interpretation of national unions. If unions raise labor costs in one area, and enterprises can move, the union must organize workers and raise labor costs in the new area to thwart reallocation of work away from the original membership. Most union practices and policies – tariffs and quotas, opposition to investment overseas, higher minimum wages, building codes, licensing requirements, closed shops, jurisdictional disputes – restrict trade and are consistent with monopoly theory rather than the Harvard/NBER picture of "collective voice."

Freeman and Medoff claim that "unions typically come into existence as a result of management's mistakes in dealing with its workforce." (p. 92). The implication must be that the number of management mistakes (unmeasured) has been greater in some industries than in others. This appears rather implausible compared to the usual explanation for concentration of unionism in certain sectors of the economy, namely, that rewards to organization are higher and costs lower in some industries. For instance, before the favorable legislation of the 1930s unions consisted almost exclusively of groups of craftsmen because they met two conditions: 1) large potential gains in wages because of inelastic demand for their services, and 2) a low cost to organize (small numbers of workers, low turnover rates, employers who were few in number or geographically concentrated).(4) After more than 40 years of favorable governmental regulation, unions are still primarily found in crafts and industries where the labor market is highly concentrated. This explains the high degree of unionization in mining, railroads, airlines, the building trades, printing, and public utilities. Industrial unions are largely found in industries with few employers — transportation equipment, primary metals, electrical machinery, and petroleum refining. Unions have not had to overcome the tremendous costs of organizing many small employers in these industries, which has traditionally limited unionization in sectors like wholesale and retail trade, the services, and agriculture. A large nonunion sector in an industry always limits union wage increases to small amounts anyway, even if some firms are unionized.

The new view claims that unionism, on balance, induces socially beneficial increases in productivity. This is allegedly accomplished because unionism reduces the quit rate, enhances worker morale and cooperation through seniority, and pressures management into stricter efficiency. If unions actually raise production more than wages, labor costs per unit of output would fall. Union enterprises would be more profitable and efficient than nonunion enterprises. This makes it difficult to explain why unions invest so much effort to promote new regulations to restrict competition from nonunion labor. It also is difficult to understand why owners of firms, who presumably want to increase their incomes, are willing to spend substantial sums to avoid unionization. The Freeman/Medoff answer is that managers wish to preserve their decision-making power at the expense of profits and that there is some risk because unions don't always offset their negative effects with higher production.

The problem with the productivity claims for unions is that managers, investors, and employees in nonunion firms have every financial and personal incentive to discover and adopt any techniques which produce the allegedly large gains in production. Freeman and Medoff implicitly believe that there are abundant profit opportunities which go unexploited because of a lack of union pressure.(5) Unions may have some independent productivity-enhancing effects, but they cannot be the dominant effects of unionism. Freeman and Medoff say that unionism may increase productivity in some settings and decrease it in others. Unfortunately, they offer no guidance about what these settings might be.

The Old Problem

The real difficulty with Freeman/Medoff picture of unionism is that they never look at what unions actually *do*. A positive analysis of union behavior is crucial because the *means* which unions use is the real policy issue. This explains the plethora of laws, regulations, and rulings directed at union tactics.

The rights of workers to use collective action in order to supplement the market process is not an issue. Workers can associate, organize, voice their grievances collectively, bargain collectively, and withdraw their services collectively as they choose. The private use of intimidation, coercion, and violence is the issue. Unfortunately, most academic discussions of labor relations, including Freeman/Medoff, ignore this aspect of unionism or else treat it as unimportant.

Unions try to fix wages above market rates via "collective bargaining." This term is misleading because if unions simply bargained for their membership, and abstained from the use of coercion, wages could not be higher than supply and demand would allow.

The principal tactic which unions use to achieve higher wages and superior working conditions is the strike, or threat of strike. It is interesting to note that terms like strike and picket line are borrowed from the military vocabulary. A great deal of confusion has been deliberately spawned about the "right to strike." If strikes were nothing more than peaceful withholding of labor services by incumbent employees, strikers would be exercising their basic market right to refuse to deal on unsatisfactory terms.(6) Two conditions are necessary for a *noncoercive work stoppage* to achieve economic gains for strikers: 1) an employer must offer wages and working conditions below prevailing market rates ("substandard"), and 2) employees must be dissatisfied enough to feel that an organized work stoppage is the device to voice their displeasure. Under these conditions, an employer quickly discovers that his offer is substandard because he cannot attract enough replacements of comparable quality without raising the ante.

But this is not how most strikes work. When a strike is called. some employees prefer to continue working, including some union members who are unsympathetic with the strike. Other people, currently unemployed or employed elsewhere at less attractive terms, seek the work abandoned by strikers. The union's problem is painfully obvious: they must *close* the market to uncooperative workers to force wages and working conditions above open-market rates. A successful strike depends upon the ability to persuade *everyone to strike.* Too many individuals wish to go their own way, and unions resort to force.

Ironically, union strikes do not reflect worker solidarity so much as conflict between organized labor and unorganized labor. "Scabs," "rats," and "strikebreakers" are the central problem for unions, not a handful of greedy capitalists. Union tactics are wellknown: mass picketing, insults, hate phone calls, physical assaults, property destruction, sometimes even murder. The violent history of unionism is no accident: it is a consequence of a system of labor markets in which private groups, within flexible limits, are allowed to use force. Unions often claim that their struggle is against abusive employers, but many actions are directed at workers who do not feel that unions serve their interest, compared to mutual cooperation with an employer. *Labor disputes are basically conflicts between organized and unorganized workers*, not conflicts between capital and labor.

It is true that many union leaders publicly deplore violence. Professor Petro, however, points out that unionists commonly consider it their right to blockade businesses which do not meet union demands. It is hard to imagine anything less consistent with free enterprise. Workers who do not cooperate with the union are considered subhumans who run the risk of getting what they "deserve" because, after all, their willingness to work incites the spontaneous outrage of strikers. Police protection to enable nonstrikers and the general community to peacefully cross picket lines is termed strike-breaking and union-busting. Within broad limits, however, government officials do little to protect law-abiding citizens from union coercion. The police and courts, reinforced by public opinions accommodate some union violence because they believe that it furthers the public purpose of "helping labor." The view that labor unions' ends justify the means has been encouraged by a century of effort in the intellectual community.

Many believe that government acts on behalf of employers when it finally intervenes to protect nonstrikers from attack. In the old days, when companies hired private security forces to protect their property and their right to continue production during a strike, the inevitable outbursts of violence were portrayed as private attacks on workers by capitalists. It would be more accurate to say that citizens attack each other if government fail to secure ownership rights, private substitutes are used.

Although coercion and threats are not all of unionism, they are a part of union behavior in this country, an important part. We must go beyond the observation that union leaders help resolve (and inspire) worker grievances in workplaces under existing collective agreements.

It is a mistake to point to the strike statistics, as Freeman and Medoff do, to claim that union violence and disruption is an inconsequential part of unionism. Strikes are a small proportion of total work hours (less than 1 percent) because they are "mistakes." If unions and managers had perfect foresight it would pay them to agree to the post-strike settlement without incurring the costs of a strike. But the world is filled with uncertainties and different perceptions about the environment and strengths of contestants.

During the 1970s. there were 5400 recorded work stoppages per year, or 20 new strikes each business day. Approximately 60,000 contracts were negotiated each year, so about 9 percent of negotiations ended in a strike. An unknown number of the remaining 54,000 negotiations each year however, avoid a strike "at the last minute." Basically, it remains negotiation between an armed and an unarmed party, no matter how many strikes are avoided by concessions.

A complete absence of strikes would not change the nature of unionism, stated bluntly, wages and working conditions above free market results can only be preserved by force or threat of force. If everyone knows that a union has overwhelming power to exclude and disrupt, the power need not be used. As Henry Simons put it, "Where the power (of coercion and intimidation) is small or insecurely possessed, it must be exercised overtly and extensively; large and unchallenged, it becomes like the power of strong government, confidently held, respectfully regarded, and rarely displayed conspicuously." 7

To understand how strikes work is not anti-labor or anti-union. People of all persuasions correctly refer to the strike as a "weapon." It is only disturbing because the analysis explicitly shows how wages and working conditions above free market results depend upon violence or credible threat of violence. Regrettably, I cannot find a more pleasant way to state the truth.

It is fruitless to blame unions for their use of force to pursue monopoly gains or to urge them to "reform." They are responding to the incentives which allow them to basically operate outside of the law. (8) Other private occasions with the same immunities would act the same way. Professor Petro is undeniably correct in saying:

> If, for example, businessmen were allowed to compel the purchases of their customers, to assault them when they showed any intention of removing their patronage, and to block access to competitors – there is very little reason to believe that such conduct would not become common business practice. . . (9)

The Freeman-Medoff picture of national unionism is supposed to be "in sharp contrast to the monopoly view of trade unions" but, if so, it is also in sharp contrast to reality.

FOOTNOTES

(1) Richard B. Freeman and James L. Medoff, "The Two Faces of Unionism," *The Public Interest*, 57 (Fall 1979): 69-93; related work includes C. Brown and J. Medoff, "Trade Unions in the Production Process," *Journal of Political Economy*, 86 (June 1978): 355-378; R. B. Freeman, "The Exit-Voice Tradeoff in the Labor Market: Unionism, Job Tenure, Quits, and Separations," *Quarterly Journal of Economics*, forthcoming; and R. B. Freeman and J. L. Medoff, *What Do Unions Do?* (Basic Books, forthcoming).

(2) For a study of independent unions see John J. Collins, *Bargaining at the Local Level*, (New York: Fordham University Press, 1974).

(3) William M. Leiserson, "The National Union: Basic Governmental Unit," in R. L. Rowan, editor, *Readings in Labor Economics and Labor Relations*, (Homewood, Illinois: R. D. Irwin, Inc., 1976).

(4) Morgan O. Reynolds, "The Intellectual Muddle over Labor Unions," *Journal of Social and Political Studies*, 4 (Fall 1979): 269-81. For a formal model of monopolistic unionism, see M. O. Reynolds, "Whatever Happened to the Monopoly Theory of Labor Unions?," *Journal of Labor Research*, forthcoming.

(5) W. H. Hutt argues the point effectively: "It is just not true that prospects of adversity stimulated managerial and technological imagination, enterprise, and effort more than the prospects of prosperity. If it were true, it would be wise for governments to impose burdens on any sector of the economy they wished to foster – taxing an industry to give it a jolt and thereby to cause it to flourish!" p. 158 in *The Strike-Threat System*, (New Rochelle, N.Y.: Arlington House, 1973).

(6) This section draws on the work of Sylvester Petro, especially his book *The Labor Policy of the Free Society*, (New York: Ronald Press Company, 1957).

(7) Henry Simons, "Some Reflections on Syndicalism," *Journal of Political Economy*, March 1944, p. 22.

(8) Roscoe Pound, "Legal Immunities of Labor Unions," in *Labor Unions and Public Policy*, (Washington: American Enterprise Association, 1958); reprinted in the *Journal of Labor Research*, Fall 1979.

(9) Sylvester Petro, *Power Unlimited* (New York: Ronald Press Company, 1959), p. 213.

BOOK REVIEWS

STEVEN J. DINER
A City & Its Universities – Public Policy in Chicago, 1892-1919
The University of North Carolina Press, Chapel Hill, North Carolina

By focusing on Chicago's first generation of academic professionals, this study illuminates how modern public policy evolved. In the 1880s university professors of social sciences began to assert the conviction that they possessed special scientific knowledge, which alone could solve the problems of a complex urban industrial society. Steven Diner describes in these pages the nature of their expertise, which they used to solve the problems of the cities and to strengthen their influence in a changing world.

By selecting Chicago as the city for this case study, the author indicates the significance of these early activists on the evolution of the modern bureaucratic socialist state. The nation's second largest city, Chicago attracted attention not only for the magnitude of its social problems but also for the dynamics of its reform movement. Many of the nation's most important social activists lived in the city of Jane Addams, and what happened in Chicago had ramifications for the rest of the nation. At the same time, the founding of the University of Chicago as a full-fledged graduate university brought to the city many of the nation's leading reformer scholars and produced several major intellectual movements. The author endeavors to compare the activities of Chicago's professors with those in other cities and university towns.

The activist professors, believing that their public service activities were selfless and in the general interest, used information networks and local institutions to unite and press their demands in education, "criminal justice", social welfare, and municipal administration. By banding together on the one hand to claim professional autonomy and on the other to offer their special knowledge to those interested in change – philanthropists, businessmen, and political progressives – they were able to establish themselves and the university firmly in American society.